

*Financial Report*

*The Magnolia School Inc.*

*June 30, 2012*



Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date OCT 24 2012

**Bourgeois Bennett**  
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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June 30, 2012 and 2011

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## **FINANCIAL SECTION**

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Governors,  
The Magnolia School Inc.,  
Jefferson, Louisiana.

We have audited the accompanying statement of financial position of The Magnolia School Inc (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the 2011 financial statements, and in our report dated September 29, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Magnolia School Inc as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

*Bouges & Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
September 27, 2012

## **STATEMENT OF FINANCIAL POSITION**

### **The Magnolia School, Inc.**

June 30, 2012  
(with comparative totals for 2011)

#### **ASSETS**

	<u>2012</u>	<u>2011</u>
<b>Current</b>		
Cash and cash equivalents	\$ 1,528,321	\$ 2,393,514
Restricted cash	118,988	106,619
Accounts receivable:		
Medicaid	999,664	1,001,742
Other	71,928	117,774
Interest in charitable remainder trust	123,750	100,000
Interest receivable	35,929	41,064
Inventory	10,981	13,981
Prepaid expenses and deposits	253,409	238,169
Investments	10,462,918	10,095,325
Certificate of deposit	50,053	-
	<u>13,655,941</u>	<u>14,108,188</u>
<b>Property and Equipment</b>		
Land	226,930	226,930
Buildings and improvements	7,405,881	7,297,773
Equipment and fixtures	1,878,579	1,822,882
Construction in process	794,339	48,007
	<u>10,305,729</u>	<u>9,395,592</u>
Less accumulated depreciation	<u>(5,725,864)</u>	<u>(5,479,280)</u>
Net property and equipment	<u>4,579,865</u>	<u>3,916,312</u>
<b>Other Assets</b>		
Bond issuance costs - net	<u>8,724</u>	<u>10,287</u>
Total assets	<u>\$ 18,244,530</u>	<u>\$ 18,034,787</u>

See notes to financial statements

**LIABILITIES**

	<u>2012</u>	<u>2011</u>
<b>Current</b>		
Current maturity of bond payable	\$ 96,333	\$ 96,333
Current maturity of note payable	99,994	99,994
Trade accounts payable and accrued expenses	253,165	249,692
Accrued payroll and related taxes	125,404	369,281
Deposits held in custody	<u>118,988</u>	<u>106,619</u>
Total current liabilities	<u>693,884</u>	<u>921,919</u>
<b>Long-Term</b>		
Bond payable	481,667	578,000
Note payable	<u>166,656</u>	<u>266,650</u>
Total long-term liabilities	<u>648,323</u>	<u>844,650</u>
Total liabilities	<u>1,342,207</u>	<u>1,766,569</u>

**NET ASSETS**

<b>Net Assets</b>		
Unrestricted		
Net investment in property and equipment	4,579,865	3,916,312
Undesignated	<u>12,237,807</u>	<u>12,191,853</u>
Total unrestricted net assets	16,817,672	16,108,165
Temporarily restricted	<u>84,651</u>	<u>160,053</u>
Total net assets	<u>16,902,323</u>	<u>16,268,218</u>
Total liabilities and net assets	<u>\$ 18,244,530</u>	<u>\$ 18,034,787</u>

**STATEMENT OF ACTIVITIES****The Magnolia School, Inc.**

For the year ended June 30, 2012  
(with comparative totals for 2011)

	2012		2011
	Unrestricted	Temporarily Restricted	Totals Only
<b>Support and Revenue</b>			
Support.			
Medicaid	\$ 9,841,401		\$ 9,841,401
Jefferson Parish Human Services Authority	29,936		50,669
Contributions	97,767	\$ 64,940	334,255
Other	11,896		34,621
Total support	9,981,000	64,940	10,045,940
Revenue:			
Tuition	19,448		33,256
Interest and dividend income	290,334		282,576
Net realized and unrealized gains on investments	73,419		1,267,928
Gala revenue	192,204		146,058
Other	330,142		367,498
Total revenue	905,547	-	2,097,316
Net assets released from restrictions	140,342	(140,342)	-
Total support and revenue	11,026,889	(75,402)	12,455,493



**Exhibit B  
(Continued)**

	2012			2011
	Unrestricted	Temporarily Restricted	Totals	Totals Only
<b>Expenses</b>				
Program services				
Residential programs	4,982,679		4,982,679	4,793,237
Vocational programs	2,729,047		2,729,047	2,830,157
Total program services	7,711,726		7,711,726	7,623,394
Supporting services				
Administrative and other	1,899,664		1,899,664	1,867,896
Nursing	543,794		543,794	502,871
Plant operation and maintenance	162,198		162,198	144,024
Total supporting services	2,605,656		2,605,656	2,514,791
Total expenses	10,317,382		10,317,382	10,138,185
<b>Increase (Decrease) in Net Assets</b>	709,507	(75,402)	634,105	2,317,308
<b>Net Assets</b>				
Beginning of year	16,108,165	160,053	16,268,218	13,950,910
End of year	<u>\$ 16,817,672</u>	<u>\$ 84,651</u>	<u>\$ 16,902,323</u>	<u>\$ 16,268,218</u>

See notes to financial statements

**STATEMENT OF FUNCTIONAL EXPENSES****The Magnolia School, Inc.**

For the year ended June 30, 2012  
(with comparative totals for 2011)

	2012			2011
	Residential Programs	Vocational Programs	Totals	Totals Only
<b>Program Services</b>				
Salaries	\$ 2,416,857	\$ 1,933,624	\$ 4,350,481	\$ 4,349,938
Employee health and retirement benefits	199,707	205,256	404,963	397,901
Payroll taxes	179,447	141,810	321,257	313,942
 Total salaries and related expenses	 2,796,011	 2,280,690	 5,076,701	 5,061,781
Advertising	-	3,215	3,215	3,085
Automobile	43,178	15,964	59,142	60,704
Bed fee - Louisiana Department of Health and Hospitals	651,625	-	651,625	650,683
Client personal needs	70,501	(2,868)	67,633	72,707
Contract services	85,498	14,406	99,904	115,792
Depreciation	125,817	76,216	202,033	192,364
Food	350,295	8,624	358,919	341,710
Insurance	198,374	102,644	301,018	273,652
Laundry, linen and bedding	16,851	-	16,851	14,648
Miscellaneous	14,828	38,441	53,269	58,523
Office supplies	3,994	6,356	10,350	12,339
Postage and printing	3,404	4,333	7,737	6,619
Purchases - retail store	-	3,240	3,240	35,262
Rent	281,798	-	281,798	271,956
Repairs and maintenance				
Buildings and grounds	78,500	25,222	103,722	81,394
Furniture	40,355	27,988	68,343	26,792
Supplies	691	462	1,153	1,544
Supplies and other	71,640	59,189	130,829	114,595
Taxes and licenses	10,130	870	11,000	14,700
Telephone	18,033	12,613	30,646	32,486
Travel	3,419	14,411	17,830	20,156
Utilities	117,737	37,031	154,768	159,902
 Total program services expenses	 <u>\$ 4,982,679</u>	 <u>\$ 2,729,047</u>	 <u>\$ 7,711,726</u>	 <u>\$ 7,623,394</u>

**Exhibit C**  
**(Continued)**

	2012				2011
	Adminis- trative and Other	Nursing	Plant Operation and Maintenance	Totals	Totals Only
<b>Supporting Services</b>					
Salaries	\$ 784,514	\$ 395,930	\$ 104,260	\$ 1,284,704	\$ 1,221,742
Employee health and retirement benefits	60,714	30,235	10,857	101,806	95,396
Payroll taxes	111,912	29,570	7,228	148,710	93,549
<b>Total salaries and related expenses</b>	<b>957,140</b>	<b>455,735</b>	<b>122,345</b>	<b>1,535,220</b>	<b>1,410,687</b>
Advertising	719	-	-	719	-
Automobile	1,201	5,791	7,287	14,279	12,206
Bad debts	10,253	-	-	10,253	29,859
Bond fees	8,621	-	-	8,621	8,921
Contract services	31,350	38,940	1,352	71,642	74,378
Depreciation and amortization	129,553	6,420	2,301	138,274	161,879
Development	62,272	-	-	62,272	63,379
Food	108,341	690	-	109,031	119,144
Insurance	140,322	14,316	11,629	166,267	148,368
Interest expense	15,269	-	-	15,269	20,018
Laundry	-	-	-	-	751
Legal and accounting	26,118	-	-	26,118	26,024
Miscellaneous	229,051	2,582	2,812	234,445	232,532
Office supplies	16,680	2,313	115	19,108	18,388
Postage and printing	9,407	200	-	9,607	5,632
Repairs and maintenance					
Buildings and grounds	34,435	841	524	35,800	30,768
Furniture	26,096	479	1,694	28,269	22,338
Supplies	329	-	8,261	8,590	5,817
Supplies and other	33,155	7,800	-	40,955	47,594
Telephone	18,182	2,888	2,811	23,881	20,485
Travel	1,821	488	-	2,309	7,335
Utilities	39,349	4,311	1,067	44,727	48,288
<b>Total supporting services expenses</b>	<b>\$ 1,899,664</b>	<b>\$ 543,794</b>	<b>\$ 162,198</b>	<b>\$ 2,605,656</b>	<b>\$ 2,514,791</b>

See notes to financial statements

**STATEMENT OF CASH FLOWS****The Magnolia School Inc.**

For the year ended June 30, 2012  
(with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Operating Activities</b>		
Medicaid, JPHSA and tuition	\$ 9,882,610	\$ 9,923,698
Miscellaneous income	497,825	618,883
Contributions and support	106,809	230,113
Interest and dividend income	295,469	271,785
Cash payments for expenses	<u>(10,245,596)</u>	<u>(9,682,862)</u>
Net cash provided by operating activities	<u>537,117</u>	<u>1,361,617</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	5,798,420	4,718,025
Purchases of investments	(6,090,051)	(5,320,740)
Purchase of certificate of deposit	(50,053)	-
Purchases of property and equipment	(871,649)	(121,360)
Proceeds on sales of property and equipment	<u>7,350</u>	<u>500</u>
Net cash used in investing activities	<u>(1,205,983)</u>	<u>(723,575)</u>
<b>Cash Flows From Financing Activities</b>		
Payments on bond payable	(96,333)	(96,333)
Payments on note payable	<u>(99,994)</u>	<u>(99,994)</u>
Net cash used in financing activities	<u>(196,327)</u>	<u>(196,327)</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	(865,193)	441,715
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>2,393,514</u>	<u>1,951,799</u>
End of year	<u><u>\$ 1,528,321</u></u>	<u><u>\$ 2,393,514</u></u>

**Exhibit D  
(Continued)**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Increase In Net Assets To Cash Flows Provided By Operating Activities</b>		
Increase in net assets	\$ 634,105	\$ 2,317,308
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
(Gain) loss on sale of assets	(7,350)	6,094
Bad debt	10,253	29,859
Depreciation and amortization	340,307	354,243
Donation of stock	(2,543)	(2,848)
Net realized and unrealized gains on investments	(73,419)	(1,265,080)
Decrease (increase) in operating assets:		
Accounts receivable	(66,847)	(138,389)
Interest in charitable remainder trust	(23,750)	-
Interest receivable	5,135	(10,791)
Inventory	3,000	16,150
Prepaid expenses and deposits	(41,370)	(15,815)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(240,404)	70,886
 Net cash provided by operating activities	 <u>\$ 537,117</u>	 <u>\$ 1,361,617</u>
 <b>Supplemental Cash Flow Information</b>		
Cash payments for interest	<u>\$ 15,269</u>	<u>\$ 20,018</u>

See notes to financial statements

**NOTES TO FINANCIAL STATEMENTS**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

June 30, 2012 and 2011

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**

**a. Organization**

The Magnolia School, Inc. (the "School") is a non-profit corporation founded in 1935 for the purpose of providing housing, training, and education for developmentally delayed adults.

**b. Basis of Accounting**

The financial statements of the School have been prepared on the accrual basis of accounting

**c. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**d. Cash and Cash Equivalents**

The School classifies as cash and cash equivalents all highly liquid debt instruments with an initial maturity of three months or less.

Restricted cash consists of amounts credited to the School's bank accounts from deposits held in custody for the students of the (see Note 4)

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION  
(Continued)**

**e. Allowance for Doubtful Accounts**

The School uses the reserve method to recognize uncollectible accounts. The reserve is based on certain Medicaid and tuition accounts receivable balances that are greater than 120 days old. Management monitors outstanding receivable balances and charges off to bad debt expense any balances that are determined to be noncollectible. As of June 30, 2012 and 2011, there was no reserve for bad debts.

**f. Inventory**

Inventory is stated at the lower of cost, as determined by the first-in, first-out ("FIFO") method, or market.

**g. Property and Equipment**

The School records purchases of property and equipment at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Repairs and maintenance are charged to expense as incurred, major renewals and replacements and betterments are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets which range from three to thirty-nine years. For the years ended June 30, 2012 and 2011, depreciation expense totaled \$338,744 and \$352,681, respectively.

**h. Amortization of Bond Issuance Costs**

Certain costs related to a bond issue (see Note 7) have been capitalized and are being amortized over the estimated life of the bond issue. Accumulated amortization for bond series 2002A totaled \$16,276 and \$14,713 as of June 30, 2012 and 2011, respectively.

**i. Investments**

Investments in marketable securities, mutual funds, and other investments are generally carried at fair market value.

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**  
**(Continued)**

**j. Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**k. Tax Matters**

The School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is exempt from Louisiana income tax under the authority of R.S. 47:121(5).

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosures of uncertain tax positions recognized in an entity's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. Tax years ended June 30, 2009 and later remain subject to examination by the taxing authorities. As of June 30, 2012, management of the School believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

**l. Allocated Expenses**

The costs of providing the various programs and other activities are summarized in the Statement of Functional Expenses. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.



**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION  
(Continued)**

**m. Financial Statement Presentation**

The School classified its net assets, revenues, and expenses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows.

**Unrestricted Net Assets** - Support, revenue, and expenses for the general operation of the School

**Temporarily Restricted Net Assets** - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

**Permanently Restricted Net Assets** - Contributions subject to donor-imposed restrictions and that are to be held in perpetuity by the School. As of June 30, 2012 and 2011, the School has no permanently restricted net assets.

**n. Reclassification**

Certain 2011 balances have been reclassified to conform with the 2012 presentation.

**o. Subsequent Events**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through September 27, 2012, which is the date the financial statements were available to be issued.

**Note 2 - CONCENTRATION OF CREDIT RISK**

The School maintains cash accounts at several financial institutions located in southeast Louisiana. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$250,000 as of June 30, 2012. The School also has cash equivalent accounts with a brokerage firm. The Securities Investor Protection Corporation insures these accounts up to \$100,000. Uninsured or non-guaranteed cash and cash equivalent balances were approximately \$932,000 as of June 30, 2012.

**Note 3 - RESTRICTIONS ON ASSETS**

Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of the School. These restrictions are considered to expire when payments for restricted purposes are made. Temporarily restricted net assets totaled \$84,651 and \$160,053 as of June 30, 2012 and 2011, respectively

**Note 4 - CUSTODIAL FUNDS**

As of June 30, 2012 and 2011, personal funds of the students totaling \$118,988 and \$106,619, respectively, are reported as deposits held in custody in the accompanying financial statements.

**Note 5 - INVESTMENTS**

Investments as of June 30, 2012 and 2011 are composed of the following:

	2012		
	Cost	Fair Market Value	Excess of Market Over Cost
Equity securities	\$ 5,427,241	\$ 6,111,273	\$ 684,032
Debt securities	2,571,633	2,648,570	76,937
Certificates of deposit	1,204,000	1,239,073	35,073
Mutual funds	202,574	210,652	8,078
Investment in Limited Partnership	249,975	253,350	3,375
Totals	<u>\$ 9,655,423</u>	<u>\$ 10,462,918</u>	<u>\$ 807,495</u>
	2011		
	Cost	Fair Market Value	Excess of Market Over Cost
Equity securities	\$ 4,052,690	\$ 4,790,072	\$ 737,382
Debt securities	2,346,837	2,375,203	28,366
Certificates of deposit	1,857,000	1,897,654	40,654
Mutual funds	686,293	764,503	78,210
Investment in Limited Partnership	249,975	267,893	17,918
Totals	<u>\$ 9,192,795</u>	<u>\$ 10,095,325</u>	<u>\$ 902,530</u>

**Exhibit E  
(Continued)**

**Note 5 - INVESTMENTS (Continued)**

	2012		
	Cost	Market	Excess of Market Over Cost
Balance, June 30, 2012	<u>\$ 9,655,423</u>	<u>\$ 10,462,918</u>	\$ 807,495
Balance, June 30, 2011	<u>\$ 9,192,795</u>	<u>\$ 10,095,325</u>	902,530
Decrease in unrealized appreciation			(95,035)
Net realized gain			168,454
Interest and dividend income			290,334
Investment income			<u>\$ 363,753</u>
	2011		
	Cost	Market	Excess of Market Over Cost
Balance, June 30, 2011	<u>\$ 9,192,795</u>	<u>\$ 10,095,325</u>	\$ 902,530
Balance, June 30, 2010	<u>\$ 8,165,738</u>	<u>\$ 8,224,682</u>	58,944
Increase in unrealized appreciation			843,586
Net realized gain			424,342
Interest and dividend income			282,576
Investment income			<u>\$ 1,550,504</u>

**Note 6 - FAIR VALUE MEASUREMENTS**

Fair value concepts are applied in recording investments. A fair value hierarchy which has three levels based on the reliability of the inputs used is used to determine fair value. These levels include: Level 1, unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, directly or indirectly observable inputs other than quoted prices for the asset or liability, such as quoted market prices for similar assets or liabilities; and Level 3, unobservable inputs for use when little or no market data exists, therefore, requiring an entity to develop its own assumptions

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs

The School uses the market approach for valuing equity, debt securities, certificates of deposit, and mutual funds which are within the Level 1 fair value hierarchy. The investments in the charitable remainder trust and the limited partnership are within Level 3 of the fair value hierarchy. The charitable remainder trust is valued using an appraised value of the underlying assets, discounted to their net present value based upon actuarial assumptions. The School utilizes fair value pricing as calculated by the limited partnership's independent administrator for valuing investments as a limited partner in a non-diversified, closed-end management investment company. The valuation procedures of the limited partnership's underlying investments are reviewed by a committee approved by the Board of the limited partnership that was established to oversee the valuation of the limited partnership's investments. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date

**Note 6 - FAIR VALUE MEASUREMENTS (Continued)**

Assets measured at fair value on a recurring basis as of June 30, 2012 and 2011 are comprised of and determined as follows

Description	Total Assets Measured At Fair Value	2012		
		Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities.				
Basic materials	\$ 551,311	\$ 551,311		
Consumer goods	1,001,437	1,001,437		
Energy	238,101	238,101		
Financial	770,724	770,724		
Healthcare	938,749	938,749		
Industrial goods	393,785	393,785		
International	475,180	475,180		
Services	137,326	137,326		
Technology	1,395,206	1,395,206		
Utilities	209,454	209,454		
Debt securities:				
AAA rating	640,137	640,137		
AA rating	238,540	238,540		
A rating	1,268,052	1,268,052		
BBB rating	501,841	501,841		
Certificates of deposit	1,239,073	1,239,073		
Mutual funds:				
Bond funds	210,652	210,652		
Investment in Limited Partnership	253,350			\$ 253,350
Total investments	10,462,918	10,209,568	-	253,350
Interest in charitable remainder trust	123,750			123,750
Totals	\$ 10,586,668	\$ 10,209,568	\$ -	\$ 377,100

**Note 6 - FAIR VALUE MEASUREMENTS (Continued)**

Description	Total Assets Measured At Fair Value	2011		
		Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities:				
Basic materials	\$ 295,532	\$ 295,532		
Consumer goods	847,610	847,610		
Energy	291,005	291,005		
Financial	766,002	766,002		
Healthcare	721,851	721,851		
Industrial goods	602,000	602,000		
Services	163,815	163,815		
Technology	976,858	976,858		
Utilities	125,399	125,399		
Debt securities:				
AAA rating	113,828	113,828		
AA rating	726,235	726,235		
A rating	1,324,422	1,324,422		
BBB rating	210,718	210,718		
Certificates of deposit	1,897,654	1,897,654		
Mutual funds:				
Index funds	375,123	375,123		
Bond funds	204,873	204,873		
World Allocation	184,507	184,507		
Investment in Limited Partnership	267,893			\$ 267,893
Total investments	10,095,325	9,827,432	-	267,893
Interest in charitable remainder trust	100,000			100,000
Totals	\$ 10,195,325	\$ 9,827,432	\$ -	\$ 367,893

**Note 6 - FAIR VALUE MEASUREMENTS (Continued)**

The following provides a summary of changes in fair value of the School's Level 3 assets for the years ended June 30, 2012 and 2011.

	2012	
	Charitable Remainder Trust	Investment In Limited Partnership
Balance as of June 30, 2011	\$ 100,000	\$ 267,893
Appreciation in fair market value	23,750	-
Net unrealized loss on investments	-	(14,543)
Balance as of June 30, 2012	<u>\$ 123,750</u>	<u>\$ 253,350</u>
	2011	
	Charitable Remainder Trust	Investment In Limited Partnership
Balance as of June 30, 2010	\$ 100,000	\$ 244,976
Net unrealized gain on investments	-	22,917
Balance as of June 30, 2011	<u>\$ 100,000</u>	<u>\$ 267,893</u>

On the Statement of Activities, the appreciation in fair value is included in contributions and the net unrealized loss on investments is included in net realized and unrealized gains on investments

As of June 30, 2012 and 2011, there were no assets measured at fair value on a non-recurring basis.

**Note 7 - BOND PAYABLE**

The School financed the construction of new buildings by issuing tax-exempt Louisiana Public Facilities Authority Equipment and Capital Facilities Pooled Loan Program Revenue Bonds (Series 2002A and 2002C) in the aggregate principal amount of \$3,860,000. The Bonds were issued pursuant to two separate Trust Indenture agreements (the "Indenture") dated January 1, 2002 and March 24, 2003 between the Authority and the Trustee. In conjunction with these issues, the School maintains a letter of credit with a financial institution and drew funds as the construction projects were completed. The letter of credit is secured by a first mortgage on all the property and equipment of the School.

**Note 7 - BOND PAYABLE (Continued)**

During the year ending June 30, 2010, the series 2002C Bonds were redeemed

The series 2002A Bonds bear interest, payable monthly, at an adjustable rate of interest (.78% as of June 30, 2012 and 1.30% as of June 30, 2011, respectively) and mature on various dates through July 1, 2018.

Interest expense on bonds totaled \$5,483 and \$7,216 for the years ended June 30, 2012 and 2011, respectively

The Series 2002A Bonds are subject to mandatory redemption prior to maturity, pursuant to the terms of the Indenture. The redemption price equals the principal amount to be redeemed, plus accrued interest, without premium, on the dates and in the respective principal amounts as defined in the Indenture. The Bonds may be redeemed at either the option of the School or the bondholders, under certain conditions, pursuant to the terms of the Indenture

Future minimum bond principal payments as of June 30, 2012 are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2013	\$ 96,333
2014	96,333
2015	96,333
2016	96,333
2017	96,333
Later years	<u>96,335</u>
	<u><u>\$ 578,000</u></u>

**Note 8 - NOTE PAYABLE**

The School has a note payable to a local financial institution secured by security accounts held by the financial institution. The note is payable in equal monthly installments of \$8,333, plus interest, and matures on February 15, 2015. The interest rate is based on the Wall Street Journal prime rate less 250 percentage points (3.0% as of June 30, 2012 and 2011). The balance of the note as of June 30, 2012 and 2011 was \$266,650 and \$366,644, respectively. Interest expense on notes payable totaled \$9,786 and \$12,802 for the years ended June 30, 2012 and 2011, respectively.



**Note 8 - NOTE PAYABLE (Continued)**

Future minimum principal payments on the note payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2013	\$ 99,994
2014	99,994
2015	<u>66,662</u>
	<u>\$ 266,650</u>

**Note 9 - LEASE COMMITMENTS**

The School leases several of its residential facilities from a related party under separate operating leases. The lease terms commenced on May 1, 2010 and are for a term of ten years. The monthly lease payments range from \$1,275 to \$2,150. Rent expense incurred under these leases totaled \$281,798 and \$271,956 for the years ended June 30, 2012 and 2011, respectively.

Minimum future lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2013	\$ 271,956
2014	271,956
2015	271,956
2016	271,956
2017	271,956
2018- 2020	<u>589,238</u>
	<u>\$ 1,949,018</u>

**Note 10 - EMPLOYEE BENEFIT PLANS**

The School maintains a 401(k) Retirement Plan. Under the terms of this plan, employees who are age 21 or older and have at least one year of service with the School may elect to contribute a percentage of their annual compensation not to exceed statutory limits. The School may make discretionary matching contributions of 50% of the first 6% of each participant's compensation, subject to a maximum annual contribution of \$2,000 for any employee. The School's contributions totaled \$38,148 and \$37,484 for the years ended June 30, 2012 and 2011, respectively.

**Note 11 - CHARITABLE REMAINDER TRUST**

The School was named one of eight beneficiaries of a charitable remainder trust created by a local donor. The charitable trust receivable is valued at \$123,750 and \$100,000 as of June 30, 2012 and 2011, respectively.

**Note 12 - ECONOMIC DEPENDENCY**

The School's residential programs are licensed by the State of Louisiana Department of Health and Hospitals and are certified Title XIX facilities. The School receives the majority of its support and revenue from Medicaid which is administered through the State of Louisiana Department of Health and Hospitals.

**Note 13 - RISKS AND UNCERTAINTIES**

Investment securities are exposed to various risks, such as interest rate, currency, credit, and market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risk in the near term would materially affect the fair market value of investments held by the School.

**Note 14 - RISK MANAGEMENT**

The School is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions, employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settlement claims that exceeded this commercial coverage during the years ended June 30, 2012 and 2011.

**Note 15 - SUPPLEMENTAL CASH FLOW INFORMATION**

During the year ended June 30, 2012, property and equipment of \$130,648 was received from a state agency. As of June 30, 2011, the School recorded a receivable of \$104,518 from a state agency for the property and equipment and deposited \$26,130 with the agency prior to receipt of the property and equipment.

**SPECIAL REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Governors,  
The Magnolia School, Inc.,  
Jefferson, Louisiana.

We have audited the accompanying financial statements of The Magnolia School Inc (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of The Magnolia School Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency in internal control over financial reporting as item 12-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School's response to the findings identified in our audit is described in the accompanying Schedule of Finding and Responses. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Governors, management, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Certified Public Accountants.

New Orleans, Louisiana,  
September 27, 2012.

## **SCHEDULE OF FINDINGS AND REPOSSES**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2012

### **Section I - Summary of Auditor's Report**

#### **a) Financial Statements**

Type of auditor's report issued unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_ yes X no

Significant deficiency(ies) identified that are  
not considered to be material weakness X yes \_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_ yes X no

#### **b) Federal Awards**

The Magnolia School, Inc. did not receive federal awards in excess of \$500,000 during the year ended June 30, 2012 and, therefore, is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## **Section II - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

### **Internal Control Over Financial Reporting**

#### **12-01 Preparation of Financial Statements and Disclosures**

**Criteria** - Adequate internal controls in relation to financial reporting require the School to have the ability to prepare its own financial statements in accordance with generally accepted accounting principles ("GAAP"), including all required footnote disclosures, or detect misstatements or errors in statements prepared by others

**Condition** - Financial statements and required disclosures were prepared by the auditors

**Cause** - The management of the School has not determined a need for a financial person possessing the required technical expertise for cost-benefit reasons.

**Effect** - The independent auditor cannot be part of the School's internal control over financial reporting

**Recommendation** - Management and those charged with governance can mitigate the lack of qualifications and expertise in preparing financial statements by carefully reviewing the financial statements, including disclosures.

**Views of responsible officials of the auditee when there is disagreement with the finding, to the extent practical** - None

### **Compliance and Other Matters**

There were no findings noted during the audit of the year ended June 30, 2012 related to compliance and other matters.

## **Section III - Federal Award Findings and Questionable Costs**

Not applicable.



## **REPORTS BY MANAGEMENT**

## **SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2012

### **Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

#### **Internal Control Over Financial Reporting**

##### **11-01 Preparation of Financial Statements and Disclosures**

**Recommendation** - Management and those charged with governance can mitigate the lack of qualifications and expertise in preparing financial statements by carefully reviewing the financial statements, including disclosures.

**Management's Corrective Action** - Unresolved - Management and those charged with governance will carefully review audited financial statements and related disclosures. For cost benefit reasons, management will rely on the independent auditor to identify related disclosures and prepare the financial statements in accordance with generally accepted accounting principles.

#### **Compliance and Other Matters**

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2011.

### **Section II - Internal Control and Compliance Material to Federal Awards**

The Magnolia School, Inc. did not receive federal awards in excess of \$500,000 during the year ended June 30, 2011 and, therefore, is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

### **Section III - Management Letter**

A management letter was not issued in connection with the audit for the year ended June 30, 2011.

## **MANAGEMENT'S CORRECTIVE ACTION PLAN**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2012

### **Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

#### **Internal Control Over Financial Reporting**

##### **12-01 Preparation of Financial Statements and Disclosures**

**Recommendation** - Management and those charged with governance can mitigate the lack of qualifications and expertise in preparing financial statements by carefully reviewing the financial statements, including disclosures

**Management's Corrective Action** - Management and those charged with governance will carefully review audited financial statements and related disclosures. For cost benefit reasons, management will rely on the independent auditor to identify related disclosures and prepare the financial statements in accordance with generally accepted accounting principles.

#### **Compliance and Other Matters**

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2012.

### **Section II - Internal Control and Compliance Material to Federal Awards**

The Magnolia School, Inc. did not receive federal awards in excess of \$500,000 during the year ended June 30, 2012 and, therefore, is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

### **Section III - Management Letter**

A management letter was not issued in connection with the audit for the year ended June 30, 2012.